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SUBJECT: UNGA/C-5: OIOS REPORTS ON LACK OF UN-WIDE INTERNAL
CONTROL FRAMEWORK

REF: USUN NEW YORK 1099

¶1. (U) The UN General Assembly Fifth Committee met in formal session on October 10 to hear introduction of several financial reports (REF). UN Undersecretary-General for Internal Oversight Services (OIOS) Inga-Britt Ahlenius presented the OIOS Annual Report (A62/281/Part 1/Add. 1), covering OIOS activities from July 1, 2006 to June 30, 2007, except for the results of OIOS peacekeeping oversight activities, which will be reported in Part II of the Annual Report during the resumed 62nd GA session.

¶2. (U) During the reporting period, OIOS issued 268 oversight reports, including 15 reports to the GA. The reports included 1,792 recommendations to improve internal controls, accountability mechanisms and organization efficiency and effectiveness. Of those recommendations, 960 were classified as critical to the UN. OIOS identified \$27.8 million in potential savings through cost avoidance, recoveries of overpayments, efficiency gains and other measurable improvements that may be attained through implementation of OIOS recommendations. Actual savings and recoveries during the reporting period amounted to \$12.8 million. The Annual Report addendum provided detailed analysis of the implementation status, and specifies that the overall implementation rate of OIOS recommendations achieved within one year of their issuance has increased by 10 per cent. The addendum also highlighted recommendations of concern that are still outstanding or were not acted upon in a timely manner by management. Oversight findings were broken down into seven risk areas, reflecting OIOS's adoption of a risk-based approach to prioritizing its work. The report findings indicate the lack of a UN-wide internal control framework, and that management is not uniformly and systematically taking responsibility for ensuring that the system of internal control is established and functioning effectively. U/SYG Ahlenius called for the adoption of a formal internal control framework, along with adequate accountability mechanisms as a front line defense to guard against inefficient, ineffective and unethical management of Member States' resources.

¶3. (U) U/SYG Ahlenius also announced that the OIOS Report on the activities of the Procurement Task Force (PTF) for the 18-month period ending on June 30, 2007 had recently been issued (A/62/272). She expressed the view that the work of the PTF should continue as part of a comprehensive strategy for strengthening the investigation function. Note: The OIOS Report on the PTF was introduced to the Committee on November ¶20.

¶4. (U) Regional Groups and several Member States intervened following U/SYG Ahlenius' formal presentation. Speakers included: Pakistan on behalf of the Group of 77 and China, Portugal on behalf of the European Union, Tanzania on behalf of the African Group, New Zealand on behalf of CANZ, the United States, Switzerland, Singapore, Cuba, and Russia. While Member States were encouraged by the overall increase

in the implementation rate of OIOS recommendations, all were gravely concerned by non-implementation of several critical recommendations. All raised the issue of deficiencies in internal control as a serious concern. Switzerland stated that they "stand ready to consider how implementation discipline (can) further be increased" in the context of the Accountability Framework should there be no progress on implementation within the next year. Several states shared U/SYG Ahlenius' concerns that the OIOS funding dependence on extra budgetary program support accounts undermines OIOS' internal audit capacity.

15. (U) In addition to the sentiments shared with other Member States, USUN/MR highlighted in our statement several areas of the OIOS Annual Report that merited special consideration. We noted that dialogue between OIOS and Member States has increased transparency and strengthened the UN. We urged the SYG, as head of the Chief Executives Board (CEB), to help facilitate the establishment of similar practices throughout the UN system and ensure the sharing of internal oversight reports with Member States. USUN/MR also urged the UN to take immediate steps to recover funds from the bribery and fraud schemes of convicted former UN procurement official Sanjaya Bahel. We also raised the issue that the 2008-2009 proposed budget does not provide funding to allow PTF to conclude its work, and called upon the SYG for his plan to provide appropriate funding for the PTF.

16. (U) Though the PTF report was not on the agenda for discussion, other Member States also made reference to the funding issue of the Task Force. Pakistan, intervening on behalf of the G-77 and China, asked for details on the funding arrangements of the PTF, as well as the amount of resources already spent in carrying out procurement-related investigations. New Zealand on behalf of CANZ pointed out

that OIOS is "going through a necessary period of further professionalization and refocusing," listing a number of OIOS activities, including PTF, and stated that "it is important for the Fifth Committee to be able to form a coherent view of what is expected of the OIOS and what it requires to deliver." Russia and Singapore stated they would comment further on the PTF when the Committee takes up the PTF report for discussion on November 20.

17. (U) U.S. Statement -

The United States Delegation would like to thank Under Secretary-General Inga-Britt Ahlenius for her presentation of

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the annual report on the work of the Office of Internal Oversight Services (OIOS). The work of OIOS continues to be of critical importance to the ongoing viability of the United Nations. OIOS has played and will continue to play a central role in enhancing the effectiveness of all UN programs by exercising appropriate internal oversight, by promoting responsible administration of resources, and by identifying instances of abuse, fraud, and mismanagement if and when they occur, as well as relevant measures to correct such actions. In this regard, OIOS plays an active role in assisting the UN to operate according to the highest standards of efficiency, competence, and integrity.

The United States commends OIOS for improvements in its annual report that have made it more readable and user-friendly. In particular, the presentation of OIOS' findings by risk area is a welcome and helpful approach that provides Member States with a better understanding of those aspects of the Organization's work that involve significant risk.

In the preface to this year's report, Under Secretary-General Ahlenius notes that the United Nations does not yet have a formal and structured internal control framework to ensure that financial resources are being handled effectively and that the Organization's objectives are being met. As Under

Secretary-General Ahlenius points out, this serious

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deficiency in internal control has left the UN susceptible to mismanagement and fraud as demonstrated by various abuses and scandals that have come to light in the past few years.

The United States believes it is essential that an internal control framework for the Organization be adopted as soon as possible. In this regard, we strongly urge the Secretariat to complete and circulate to Member States the reports on risk management and accountability that were requested by the General Assembly in previous sessions. It is essential that we take action on this matter, as Under Secretary-General Ahlenius suggests, to "foster an environment conducive to successfully fulfilling the Organization's mission, while strengthening accountability and transparency."

The United States welcomes the approval during the Fifth Committee's resumed 61st session of terms of reference for the Independent Audit Advisory Committee. We look forward to the election of IAAC members this November and the start of the IAAC's work in January.

In particular, we look forward to the contribution that the IAAC will make in ensuring the operational independence of OIOS, including that it has sufficient resources to perform its core functions, free from any real or perceived influence by the very bodies or officials it is intended to oversee. The IAAC can also be helpful in ensuring that OIOS has adequate flexibility to deploy its resources to address emerging risks and changing priorities. As Under Secretary-General Ahlenius noted in the OIOS annual report,

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the current funding structure "does not necessarily allow for attention to be focused on the areas of highest risk." It is time for Member States to address this critical shortcoming.

It is clear from the reports under review (A/62/281/Part I and A/62/281/Part I/Add.1) that OIOS activities in the areas of internal audit, monitoring, inspection, evaluation, and investigation have been extensive. OIOS' production during the period from July 1, 2006, through June 30, 2007, of 268 oversight reports - an average of more than 20 reports per month - containing 1,792 separate recommendations represents a significant output designed to improve the work of the Organization. We commend OIOS for identifying a total of \$27.8 million in cost savings, even though actual savings and recoveries only amounted to \$12.8 million. It is imperative that appropriate action be taken to realize the remaining savings recommended by OIOS but not yet recovered.

As important as the nearly 1800 OIOS recommendations are to the work of the Organization, they have little value unless management takes appropriate action to implement them. We are encouraged to learn that the overall implementation rate of OIOS recommendations achieved within one year of their

issuance increased by 10 per cent. We commend UN management for such progress. However, there are a number of OIOS recommendations identified in the Addendum to the Annual Report in which management has either not accepted or failed to take swift and adequate action. We would like to know what steps the Secretary-General has taken to review regularly the status of Secretariat action and to follow up on those recommendations in a timely manner with concerned Secretariat offices. We also would welcome information concerning the implementation rate during the current reporting period of those recommendations that OIOS has identified as "critical." We urge OIOS to resume providing this information in future reports.

I would now like to take a moment to highlight several areas of this year's OIOS Annual Report that merit special consideration:

We are pleased that the steps to increase transparency in General Assembly Resolution 59/272 have "significantly facilitated the dialogue between OIOS and Member States," and we share Under Secretary-General Ahlenius' view that this dialogue has strengthened the Organization. As the next step toward even greater transparency, we urge the Secretary-General, in his role as head of the Chief

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Executives Board, to help facilitate the establishment of similar practices throughout the UN system and to ensure the sharing of internal oversight reports with Member States.

The failure, for example, of the Organization to seek recovery of \$589,000 associated with the procurement of substandard goods in violation of existing rules and regulations is not acceptable, nor is the decision not to hold staff members financially responsible for such losses. Similarly, the Organization needs to take immediate steps to recover funds from staff members and vendors who allegedly helped recently convicted former UN procurement official Sanjaya Bahel in his bribery and fraud schemes. Allowing such transgressions to occur without penalty sends the wrong message and does little to discourage those willing to undermine the work of the Organization in exchange for personal gain.

The work of the Procurement Task Force (PTF) in reviewing cases of possible fraud and abuse remains essential to identifying those who may be guilty of misconduct in order to re-establish a sense of trust in the integrity of the procurement system. We were concerned to observe that the 2008-2009 proposed budget does not provide funding to allow the PTF to conclude its important work. We would like to know what measures the Secretary-General has in mind to provide appropriate funding for the PTF.

We look forward to a more detailed exchange of views with Under Secretary-General Ahlenius and her OIOS colleagues as well as with representatives of UN management who are the ones responsible for implementing the recommendations of OIOS and other UN oversight bodies. In this regard, we would welcome Under Secretary-General Ahlenius' comments concerning OIOS' working relationship with senior UN management. For example, what is the format and frequency of Undersecretary-General Ahlenius' interaction with the Secretary-General on matters relating to the work of OIOS?

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We also look forward to the release later this fall of the OIOS report on investigations, including recommendations on how this key oversight function can be strengthened.

OIOS has played, and will continue to play, a critical role in promoting the effectiveness of the United Nations. The United States commends Undersecretary-General Ahlenius and her staff for their continued efforts to foster accountability, transparency, and integrity in the Organization.

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